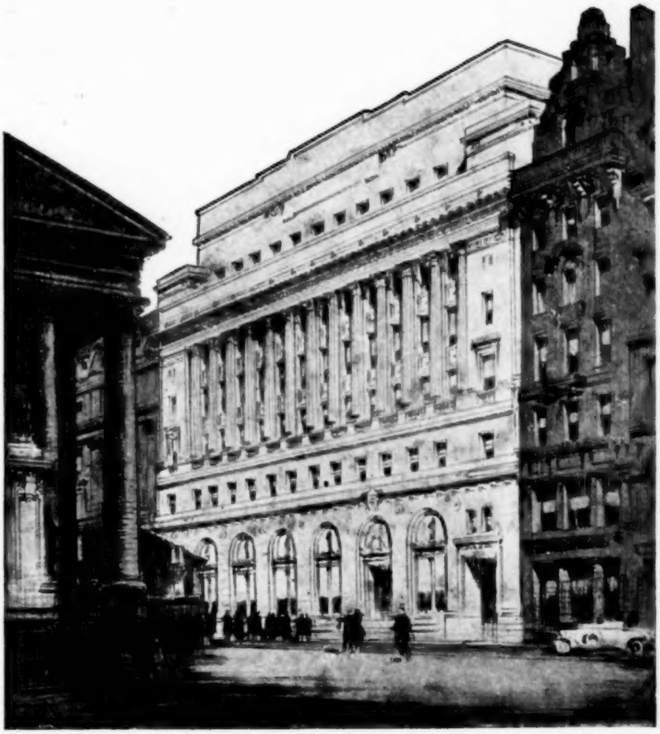

Lloyds Bank Limited

MONTHLY REVIEW

OCTOBER 1932

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Lloyds Bank Limited Monthly Review

New Series—Vol. 3 October, 1932 No. 32

**** The Bank publishes from time to time in this Monthly Review signed articles by exponents of different theories on questions of public interest. The Bank is not necessarily in agreement with the views expressed in these articles.*

The Ottawa Resolutions on Finance and the Future of Monetary Policy

By Lionel Robbins.

I.

WHATEVER may be thought of the preference arrangements which are the main outcome of the Imperial Conference at Ottawa, it is clear that it would be an exaggeration to claim great importance for the result of its deliberations on monetary policy. Indeed, from the nature of the case, this was not to be expected. Whether or not the Empire can live to itself in the exchange of certain products, it is obvious that self-sufficiency in matters of money and finance is out of the question. To have laid down, without consultation with other financial centres, the positive outlines of an Imperial monetary policy would have been, to put it mildly, inadvisable. If the matter had to be raised at all, the most that could be hoped was that positive commitments would be avoided and agreement secured on the negative issues of what policies to avoid. This, indeed, seems to have been the outcome. The document which has been issued embodying the conclusions of the Committee on Money and Finance is a vague pronouncement which, while it may justify the claim that deliberations have taken place, in fact commits no one to anything which may be inconvenient in the more practical negotiations of the forthcoming World Economic Conference.

Nevertheless, the resolutions are not entirely devoid of interest. If they are judged in relation to the speeches at the

opening of the Conference, and the general controversial discussion of the last few months, it is possible to discern, underlying the colourless periods, certain broad tendencies of policy which have considerable significance for the future. It is the object of this article to attempt to indicate these tendencies and to submit them to critical analysis.

II.

It is fairly clear, I think, that the proposal for an Imperial monetary system based on sterling and divorced permanently from gold—the Empire *Bloc*—which, at one time, enjoyed considerable popularity in this country, has suffered a severe set-back; there is no mention in the resolutions of such a proposal and measures are approved which point in the other direction. The Committee notes "with satisfaction" the steps which have been taken by the United Kingdom to prevent wide fluctuations in the gold value of sterling. It indicates the desirability of devising, in concert with gold standard countries, a common policy with regard to prices. It recognizes that "the ultimate aim of monetary policy should be the restoration of a satisfactory international standard." What this "satisfactory international standard" is to be it does not specify, but there can be little question that, in the minds of some at least of the signatories, this standard is none other than gold.

The reasons for this attitude are obvious, though they have not always been appreciated. It is by no means clear that it would be to the advantage of Great Britain permanently to remain off the gold standard. Such a detachment—even if it were in company with other members of the Empire—would almost inevitably involve a loss of business as a financial centre and an added cost of trade due to fluctuating exchanges. But, assuming that it was decided that, for us, such a policy was desirable, it is still very doubtful whether we could carry the Empire along with us. The attitude of South Africa has been made sufficiently explicit. A devaluation is, perhaps, not yet ruled out. But it is hardly to be expected that the source of so large a proportion of the world's gold supply should lend support to a permanent demonetization of the metal which owes so much of its value to its use as money. The Canadian attitude, though at present less clearly defined, is unlikely ultimately to favour a sterling union. It is most improbable

that Canadians would be willing permanently to forgo the advantage of a stable exchange relationship with the United States for the lesser advantage of stable exchange with the rest of the Empire. Nor is it to be expected that the political situation in India, where there has already been so much complaint at the so-called "bondage to sterling," should be more favourable in the future than it has been in the past to measures which involve special monetary relations with this country.

Considerations of this sort must already have become sufficiently familiar to those who are responsible for the conduct of policy. But there is a profounder reason for the probable failure of all schemes of this nature. They raise, in their acutest form, the problems of monetary autonomy. The existence of an Empire *Bloc*, run on "managed currency" lines, would not, and could not, involve stable prices for all parts of the system. In order to preserve stable exchange relationships with sterling it would be necessary for the authorities in other parts of the system to be prepared to expand or contract credit locally. This would be almost certain to break down. It is possible that credit expansions to prevent the local exchange rate on London from *rising* might be carried through without difficulty. But that the inhabitants of the different centres would submit to credit contractions to prevent it *falling* is most improbable. That this danger is not imaginary is shown by Australian history. Rather than face the credit contraction necessary to keep the Australian pound on a par with the pound sterling, Australia elected to go off the gold standard. If this could happen when sterling was linked to gold, how much more probable is it when sterling is tied to no such anchor? Faced with the necessity of contracting credit, if parity with sterling was to be maintained, the citizens of the centre in question would always tend to argue that it was up to the monetary authorities in London to inflate to save them the trouble of deflating. In such circumstances, the system would be likely to break up. Thus an Empire *Bloc* would not relieve its members from the obligation of making adjustments similar to those which are necessary under a gold system. But it would tend to invest such adjustments with all the friction of inter-Imperial politics. It is probable that an underlying realization of all this informed the conversations at Ottawa.

III.

If the permanent sterling *Bloc* is conspicuous by its absence from the resolutions, proposals for an isolated sterling inflation, which have secured some popularity recently, are tacitly repudiated. The importance of stable exchanges with gold is emphasized. At the same time, it is explicitly stated that the " absence of a rise in gold prices necessarily imposes limitations on what can be done for sterling." It is quite clear that the absence of a rise in gold prices does not impose any *technical* limitation whatever on the operation of the sterling printing presses. The absence of a rise in gold prices imposed no limitations on the inflations of post-war Europe. It follows, therefore, that the " limitation " which the Committee had in mind was an unwillingness to incur the pains and penalties which accompany isolated inflation.

Such an unwillingness is not unnatural. A sterling inflation, unaccompanied by a similar process in the gold standard countries, would inevitably involve a depreciation of the sterling exchanges. An inflation which pushed sterling prices back to the 1929 level, gold prices remaining the same, would certainly mean a dollar-sterling exchange considerably below 3. Quite apart from the dangers of the transition, to which I advert below, this would involve most serious sacrifices. We have already suffered, from the abandonment of the gold standard, extensive losses in respect of all foreign debts to us which are payable in sterling. By the present depreciation of the exchange, their value in terms of dollars has fallen by some 25 per cent. To depreciate still further would involve still greater losses. These are matters which the advocates of get-rich-quick currency nostrums, always willing to jeopardize other people's money, are apt to dismiss as of completely secondary importance. But serious men must realize that such losses are real and tangible and that it is not by frittering away the value of our property that we shall restore to their former prosperity our dilapidated fortunes.

Losses of this sort would be permanent if we indulged in isolated inflation. We should be that much worse off for ever. But, apart from these, there are other dangers to be feared which, if transitory in their incidence, would be highly damaging while they lasted. I refer to the deflationary effect in the world at large of an exchange which is depreciating. There can be little doubt that the present depreciation of sterling has had considerable

deflationary influence in the gold standard countries and that this influence has had injurious repercussions on trade activity here. There can be equally little doubt that a further fall in the exchanges would intensify these difficulties.

Such a statement may appear paradoxical. The abandonment of the gold standard by this and other countries involved a diminution of demand for gold. Does not this imply an *in*flationary rather than a *de*flationary influence in gold standard countries? The argument has force—if we think only of long-run tendencies. In the long run, there can be no doubt that, if this country and others remain off the gold standard, the value of gold will be less; that is, the level of gold prices will be higher than it would have been if we had remained as we were. But in the short run things are different. In the short run, when a local currency depreciates, the exchange is apt to fall faster than the internal value of money: the currency tends to be undervalued. While this lasts, it does grave damage to trade. The inhabitants of the areas of stable money find themselves at a disadvantage in competition with the exporters of the area of undervalued money. This means a destruction of capital values and a shock to confidence. Traders do not know what will happen next; they endeavour at all costs to make their position liquid. At the same time, there is a great pressure on the exchange. The balance of payments tends to turn against the country of stable money: and the financial authorities impose controls on foreign business. They impose regulations on exchange dealing and capital transfer. Needless to say, this worsens, rather than improves, the situation. Financial crisis sets in; a fall of prices ensues. In some such way—and the picture is not imaginary—in the short run, the depreciation of one currency tends to produce deflation and depression elsewhere. Such effects are bound to have further injurious repercussions on the country of depreciating currency itself.

It is sometimes urged by the advocates of local inflation that effects of this sort can be avoided by deliberate support of the exchange by the Central Bank concerned. Thus, in the case of Great Britain, it is urged that we should push ahead with a sterling inflation, but that, in order to avoid inconvenience to the world at large, the exchange should be supported out of the resources of the Exchange Equalization Fund and the gold in the possession of the Bank of England.

The sentiment is commendable; but the logic is defective. It is reassuring to find that the sinister possibilities of inflation are at least recognized by its advocates. But it is truly disquieting to discover that it can be believed in responsible quarters that these sinister effects can be avoided by so altogether *simpliste* a manœuvre. What would be the effect of such a policy? It is announced by the Government that, regardless of what happens elsewhere, it proposes to inflate until sterling prices are back at the 1929 level. At the same time, it announces, in order to reassure the investor and the depositor, and to avoid "undue fluctuations in the exchange," that it proposes to support sterling "out of the abundance of its available assets." Will the investor and the holder of foreign balances be reassured? Why should they be? They know that, unless gold prices rise too, a rise in sterling prices to the 1929 level necessarily means, sooner or later, a fall in the sterling exchange. If the Government promises to buy sterling at a figure above the level to which it must eventually fall, so much the stronger is the argument for immediate action. They will say: "Let me save my money while the going is easy. If the thing breaks completely, I shall be out of it for good; if they carry it through with success, I can bring my money back with a profit." What possible business argument can be opposed to such reasoning? No doubt, for a time—if it were willing to part with all its gold and its foreign exchange—the Bank could support the exchange at its present level. But what good would this do to anybody, save to those who were transferring balances abroad or importing extra stocks while foreign exchange was still cheap? The whole thing would be a most flagrant consumption of capital. It is hard to believe that traders and manufacturers abroad, already the victims of a spectacular shortage of capital, could derive any lasting benefit from so prodigal a policy.

Besides all this, the effects of a local inflation on the local capital market must not be neglected. If the Government here had yielded to the very great pressure which has been brought to bear upon it in recent months and had launched out into vast schemes of inflationary borrowing, it is nearly certain that the conversion would have been a failure. People would, quite rightly, have said, "I can get more for my money elsewhere." The danger to the conversion of war loan is now past. But there is still much which remains to be converted in other fields. The advocates of a local inflation urge

measures which, by their very nature, render impossible one of the few straightforward and satisfactory ways of dealing with the burden of fixed debt whose existence they so stridently emphasize. All the more satisfactory, then, that the delegates at Ottawa, although perhaps individually sorely tempted, collectively turned a deaf ear to all this siren music.

IV.

A local inflation, then, is ruled out by the resolutions. But what of a world inflation? What of the proposal which has been urged so frequently in recent months that the Central Banks of the world should co-operate in measures to raise world prices to the 1929 (or the 1924) level?

On this point, the resolutions are not altogether unequivocal. They open with a statement to the effect that a rise of wholesale prices, throughout the world, is in the highest degree desirable. This might be the prelude to a thorough-going advocacy of "reflation." But it is followed up by a repudiation of inflationary borrowing and an emphasis on the necessity of confining a cheap money policy within the limits of sound finance. This is wholly unexceptionable. Some rise of wholesale prices is bound to accompany recovery. So long as the low rates which now obtain in the chief money markets of the world are not maintained artificially by extensive open-market operations on the part of the Central Banks, there is nothing in the situation to cause serious apprehension. And in emphasizing, as they do, the necessity of removing non-monetary obstacles to the revival of confidence, the resolutions show a just sense of proportion. In spite of all this, however, reading between the lines, it is difficult not to suspect some tendency to reflationism. The resolutions declare a "desire to co-operate with other nations in any practicable measures for raising wholesale prices." This may, of course, merely refer to the removal of the "non-monetary obstacles"; but it may imply a more positive policy. It is true that to raise prices to the 1929 level would imply action more positive than the mere safeguarding of the conditions of easy money recommended by the resolutions; the action involved would fall rather under the heading of inflationary borrowing—which the resolutions condemn. But compromise resolutions are not necessarily consistent and he would be a bold man who would aver that there was *no* section

of any importance in responsible Imperial circles which was in favour of reflation. For this reason, if for no other, some examination of the case for such a policy seems desirable in this context.

The case for reflation—for returning to the level of 1929—is easily stated. In 1929, speaking generally, the world was enjoying a fair degree of prosperity. Since 1929, it has been plunged into deep depression. This depression has been caused by a fall of prices to which costs have not adapted themselves. The depression, therefore, being due to deflation, what more obvious remedy than a counter-inflation? The fall of prices since 1929, having brought about a world impoverishment, a rise of prices back to where they were in 1929 would bring about a return of prosperity. That, in essence, is the argument which has led many who would protest with righteous indignation that they were opposed to inflation or any "monkeying about with the currency," to regard the policy of reflation as straightforward common sense.

At first sight, the argument seems overwhelming. A fall of prices *has* accompanied the depression; costs and prices *are* grievously out of alignment. If things were as they were in 1929, for the moment at any rate, they would certainly seem much better. But closer examination suggests certain difficulties. Is it true that the fall of prices is the *cause* of what has happened? May it not rather be the *consequence* of other more fundamental maladjustments? Can we assume that an inflation which carried prices back to the 1929 level could be limited in its effect to such an adjustment? Is it possible to reverse the economic engine in this simple way and then, having reached, as it were, a more favourable point of past history, to run forward once more into a region of now calm and cloudless weather? These questions cannot be dismissed as academic trifling. They are questions to which it is essential to obtain a satisfactory answer if we are not to rush into a policy of reflation with our judgment distorted by the mere wish to find an easy way out.

Is the slump really due to deflation? To answer this question it is not enough to look uncritically at what has happened since 1929: it is necessary also to examine very critically what went before. But if we do this, we find a state of affairs highly unfavourable to the hypothesis of deflation. If we look beyond the somewhat peculiar circumstances of Great

Britain and consider the world at large, it is clear that in the years before 1929, so far from there being any deflation, there was, in fact, one of the most colossal expansions of credit that the world has ever seen. Accompanying this expansion of credit we find other equally significant phenomena—intense activity in the constructional industries, and the centres producing raw materials for such industries, international capital transfer on an unprecedented scale, and a vast upward movement of stock exchange securities, the whole terminated by a period of monetary stringency, cessation of international investment and stock exchange collapse. We find, in fact, nearly all the phenomena which theory and previous experience unite in leading us to expect to accompany an inflationary boom—a period in which the supply of money is increasing too rapidly rather than not rapidly enough.

There is one feature, however, which is lacking; and it is the absence of this feature which, more than anything else, is probably responsible for the difficulty which so many have experienced in perceiving the real nature of what was taking place. I refer, of course, to the absence of a rise in prices. The inflationary boom of the text-books and previous experience—at any rate the experience of the twentieth century—is accompanied by a rise in commodity prices. During the period under discussion, no such rise took place and, at first sight, its absence might appear to vitiate the hypothesis of inflation. A very little reflection, however, is sufficient to show that this is not the case. During the period under discussion, productivity was increasing rapidly. In a period of increasing productivity, if there is no inflation, prices fall. If prices fail to fall, then inflation is taking place. This is exactly what happened. In the United States of America, which must be regarded as the centre of the inflationary movement during these years, the wholesale price index in 1929 was only 0·6 per cent. below the average of 1924. The volume of money was increasing so as to offset all cost reductions due to increased productivity. Inflation was taking place. This should have been clear even then, if we had viewed the situation with clear eyes. As it was, bemused by the arguments of those who assured us that, provided the price level remained stable, there was no fear of trade fluctuation, we allowed ourselves to be beguiled into the belief that, the peculiar difficulties of England and certain Central European countries apart, the situation

was fundamentally healthy. The leader of the price stabilizers in America predicted that industry was about to advance to even higher levels of prosperity. The prediction made its appearance on the morrow of the Wall Street crash.

If the view of the pre-1929 situation which I have just outlined be correct, it follows that our troubles since that date are traceable, in the first instance, not to deflation but to inflation. The maladjustments which the slump has revealed were due not to money rates which were too high but to money rates which were too low. The price level which refused to bend, eventually snapped. The slump is the consequence of an inflationary boom.

But, since the slump, has not the situation been complicated by deflation? Is not the fall of prices which has actually taken place, out of all relation to the previous increase in productivity? It is on this argument that the reflationist retreats if he is confronted with the insufficiency of a mere condemnation of the failure of the monetary authorities to keep the price level stable. This argument deserves the most careful examination.

It may be admitted at the outset that deflation in the sense of a slowing up of the turnover of money has actually taken place on a very considerable scale. I know of no opponent of reflation who has ever denied this fact. It follows, therefore, that some of the price fall cannot be attributed to the increase in technical productivity. To this extent, we may agree with the diagnosis of the reflationist. But to stop here is to shirk the real problem of why deflation in this sense has taken place. For deflation cannot be regarded as a spontaneous phenomenon. Under capitalism, he who hoards, either in the sense of holding cash or keeping money usually active on idle deposit, is punished by loss of interest. If hoarding occurs, therefore, it is necessary to enquire what has gone wrong with the normal mechanism to induce such unusual behaviour. The appeal to deflationary hoarding can never be an ultimate explanation. It is the problem rather than the solution.

If we approach matters from this point of view, further diagnosis is not difficult. Money tends to be hoarded, funds tend to be left on deposit, because there is no prospect of profitable investment. And why is there no prospect of profitable investment? Because costs, which by reason of the inflationary boom have become too high in relation to prices,

have not been reduced. While this continues, deflation is bound to take place. This for two reasons. On the one hand, investors hold off from new enterprise, and existing enterprises tend to reduce their commitments; on the other hand, financial institutions which have lent to firms which are entrapped by cost rigidities, finding their assets frozen, curtail their loans in other directions in an attempt to regain their liquidity. Thus the deflation is not spontaneous; it is the response of the system to the failure to eliminate the maladjustments of the boom period. Were these maladjustments eliminated, it would cease. The turnover of money would resume more normal proportions. In former depressions this is what happened. In the present depression, misled by the view that consumers' purchasing power must at all costs be maintained, the world has delayed such readjustments. The result has been that the deflationary tendencies have been aggravated; and to the deflationary tendencies due to the rigidity of costs, there have been superadded the deflationary tendencies due to financial crisis and political tension.

In such circumstances, it is perhaps natural that the wish should arise to meet deflation by a counter inflation: to get round cost rigidities by acting on prices. And no doubt if inflation simply meant the simultaneous and definitive marking up of prices, as by a Government decree, there would be much to be said for the procedure. Unfortunately, inflation does not work this way. It is the essence of inflation that it affects some prices before others, that its final effects are different from its impact effects, and that production is affected differently at different stages of the process. In an inflationary boom, it is this unequal incidence of the inflation which gives rise to the maladjustments, which eventually produce the slump. Entrepreneurs are encouraged by artificially cheap money to embark on enterprises which can only be profitable provided that costs do not rise. As the new money works through the system, costs do rise, and their enterprise is thus rendered unprofitable. For the time being, trade seems good but when the full effects of the inflation have manifested themselves, there comes a crisis and subsequently depression.

Now, we do not know at present all that is to be known about such movements. The theory of the subject is not complete: on some aspects we are still in the dark. The problem of defining the degrees of credit expansion which, in

different conditions, necessarily involve such unsound development of business, is the most difficult problem of theoretical economics. The man who generalizes with certainty on this subject is either a charlatan, or in possession of special knowledge which has not been made known to economists at large. Personally, on our present knowledge, I would not oppose measures, such as those employed in recent months by the Federal Reserve authorities, which offset, as they take place, deflationary movements induced by financial panic or undue apprehension of political disturbance. I can conceive, too, that in a community in which habits of voluntary saving are strong, a slow extension of credit such as we have witnessed in France in recent years may not be inimical to stability. These are matters on which the guidance of existing monetary science is not yet unequivocal. On the question of small expansions of credit or slow expansions of credit it would be highly premature to dogmatize.

But the case we are contemplating is not of this order. The policy of inflating so that, within the next two years or so, prices may be raised to the 1929 level cannot by any legitimate use of language be called a small inflation or a slow inflation. To raise prices by something of the order of magnitude of 30 per cent. is a major inflation. I can see no reason in theory or past experience for supposing that it would not be accompanied by the same phenomena which have marked other major inflations—that is to say, by the kindling of false expectations and the launching of enterprises which have no basis of permanent profitability; a short period of hectic activity and then a collapse again into depression. If there are reasons why this should not happen in this particular instance, they have not yet been made clear.

This danger of attempting to evade necessary readjustment by monetary manipulations, is no figment of the theoretical imagination; it is a very real possibility. This is clearly shown by past experience. The reflationist policy is not new. It is the logical continuation of the policy which has brought us into our present position. In 1927, in the United States, the usual indices all pointed to the imminence of a normal depression of trade. If the situation had developed without interference, the depression due to the credit expansion since 1923 would have come in 1927. But this was not allowed to happen. Partly in response to a generous desire to ease the situation over here,

partly for domestic reasons, the Federal Reserve Board lowered its rates and actually, for the time being, forced the system into renewed activity. The result was the insanity of 1928–9. I do not think that there can be much doubt that the depression would have been much less intense if it had been allowed to develop at the earlier period.

Nor is this all. There is an example still nearer our day. In the autumn of 1929, when the Wall Street crash arrived, there were many who thought that the situation would be saved if money rates came down, and if credit conditions were made as easy as possible. Money rates did come down at a speed only made possible by concerted action. Credit conditions were made very easy and, in the first few months of 1930, a great deal of money was pumped into the markets. What was the result? Revival? Not at all. Merely that the process of liquidation, which should have started in 1929, did not get fairly under way until the winter of 1930.

But if this is so, if the policy of reflation has such a slender foundation in general reasoning and such doubtful justification in past experience, then surely we should listen with very considerable scepticism to those who urge us to take this "easy way" out of our present difficulties. We should require them to furnish further proof than they have furnished up to date of the immunity of their proposals from strictures of the kind I have indicated. Before we accept their plan we should ask them to show not merely that raising prices by inflationary means would produce, for the time being, an appearance of prosperity—a proposition of which any first year student would be capable; we should ask them also to show that this process would not have the effect of postponing inevitable liquidations and of fostering false expectations; and that it would not be followed by a lapse into a state of depression perhaps worse than that from which we now suffer. Until they have shown these things, we should regard them not as the saviours of the city but rather as the over-hasty bringers-in of Greek gifts which, no doubt, look attractive, but which may well contain that which brings the city to destruction. And we should refrain from dismissing with contempt, as do many of the advocates of this policy, the state of mind of those of our rulers who, when confronted with proposals of such unproven value, regard them anxiously, with much doubt and hesitation.

In fact, I believe that the present time is peculiarly perilous for the adoption of any such policy. If I read the American scene aright, the process of liquidation, although by no means complete, has now reached a stage when, at some not altogether distant date, the very slow beginnings of a sound recovery are not inconceivable. In such a situation, some price rise is inevitable and perhaps not undesirable. But the situation is complicated by the fact that, for reasons which as I have indicated above I would not condemn as unjustifiable, the authorities of the Federal Reserve Board, in order to offset the panic of recent months, have pumped large quantities of new money into circulation. So far, this money has done little but arrest the fall. But a situation exists in which a rise of prices, not justified by the underlying facts, might get out of hand and lead rapidly to a boom of the wrong sort and then collapse again. I do not wish to be understood as asserting that this thing will happen. I do not wish to commit myself to any predictions; but I think the danger exists. And I am sure that if recovery is eventually to come on a stable foundation, a great deal must depend on the willingness of the authorities of the Federal Reserve system even to withdraw from the market some of the funds it has injected, at a time when there may be the greatest pressure brought upon it to continue an easy money policy. Anything which would commit the central banks of the world to an easy money policy which must last until we are back at the 1929 level seems to me entirely undesirable.

Beyond this, there is a further danger; the danger that the hope of artificial monetary relief may act as a red herring. Whatever may be the course of prices in the next few months, on the stock exchanges or the commodity markets, it is clear that the world is not going to get out of its present difficulties without further painful readjustments. It is impossible to get back to a state of true prosperity until the real underlying causes of the present stagnation are removed—barriers to international trade, in the shape of tariffs, quota systems, exchange restrictions and the like, obstacles to internal readjustments in the shape of cost rigidities and bad debts which should be written off. Anything which tends to the belief that it is possible to return to normal conditions without removing these restrictions does the gravest possible disservice to humanity at large. It is not the least of the dangers of reflationism that, wherever it is preached, it seems to have just this effect.

V.

The Committee concludes its statement with the recognition that " the ultimate aim of monetary policy should be the restoration of a satisfactory international standard." In this, it is surely wise. The trade of the world has not increased since the abandonment of the gold standard. It has diminished to a point which is scarcely compatible with the permanent survival of certain sections of the world community. Whatever its faults, the gold standard, if worked on sound and austere lines, does provide a basis for international commerce better than any alternative which, at present, it seems possible to devise. The sooner such a basis is restored, the better for all of us. But it is not going to be an easy or a comfortable journey. The gold exchange standard, on which so much of the post-war reconstruction was based, is for the time being, at any rate, considerably discredited. The choice of parities which will be at once compatible with safety and not injurious to other financial centres will be a task of the utmost difficulty.

Once back on an international gold standard, there are certain lessons of the last few years which we can only neglect at our peril. We have learnt that if we are to avoid inflationary disturbance, it is not enough that the price level should be prevented from rising. It should no longer be possible to think that industry is necessarily running on an even keel if only the price level remains stable. As it has been most trenchantly put by Mr. Robertson : " The maintenance of an even rate of industrial progress, difficult enough in any case, will be rendered more difficult still if the world commits itself to the view that, however great the improvements in technical efficiency, prices ought never to fall . . . . If the business man's psychology jibs at swallowing the moderate price falls dictated by increasing productivity, he renders himself more and not less liable to suffer the catastrophic price falls due to industrial dislocation and crisis " (" *How do we want gold to behave?* " printed in *The International Gold Problem,* p. 45).

Again, if we are to avoid inflationary disturbances, the authorities in different financial centres must work the gold standard on lines much more severe than those which have been the rule in recent years. They must abandon the habit, so beloved in the post-war period, of " offsetting " losses of gold by one centre to another by countervailing open-market operations. That way lies a renewal of disequilibrium and a repetition of the

events of the last seven years. We must realize that, on an international standard, payments between *countries* must be on the same footing as payments between *counties* if the equilibrating mechanism is to operate. If one centre, being in disequilibrium with the rest of the world, loses gold, then disequilibrium will continue if that loss does not mean a contraction of the circulation in that centre. The Micawberish policy of delaying intervention in the hope that something will turn up to turn the tide in the other direction only makes things worse.

But, above all, policy must be directed to restoring the freedom of the market in the widest sense of the term. By this I mean not only the lowering of tariffs and the abolition of trade restrictions but also the removal of all those causes which produce internal rigidity—rigid wages, rigid prices, rigid systems of production—which, in the period since the war, have deprived the economic mechanism, particularly in this country, of its power of adaptation to external change. It is this inflexibility of the economic system at the present day which is at the root of most of our troubles. It was the cause of disequilibrium before the slump. Its persistence is one of the many reasons why the effects of the slump have been so peculiarly devastating. Unless it is abolished, or at least considerably weakened, no monetary system can be worked satisfactorily. Indeed, it is no exaggeration to say that unless this happens, it is highly doubtful whether, in the long run, an economic organization of the modern order of complexity can continue to exist at all.

It is often urged that such things should not be said. It is a vain hope, it is said, to restore flexibility to the economic system. That sort of thing was all very well during the nineteenth century; but times have changed. People will not stand it—you cannot put back the clock. It is useless to talk about these things.

This attitude is, surely, unreasonable. To assume, as an axiom, the impossibility of changes which are within the power of human volition to bring about, is to abandon belief in the possibility of rational action. Nobody wants such changes for their own sake; they are to be justified only by showing that, if they do not take place, the attainment of ends which most of us would agree to be desirable will be frustrated. If it can be shown —as I think it can be shown—that unless greater flexibility can be

restored the economic machinery must inevitably continue to jam, then it is just folly to refuse to recognize the fact. It may be that the human animal is not capable of this effort of adaptation; that he has created a mechanism whose potentialities he is unable to realize because its successful working involves too high a demand on his capacity for consistent action. That is by no means inconceivable; but it is much too early yet to reach this depressing conclusion. The world has not yet been sufficiently confronted with the facts. Since the war, economists and politicians have vied with each other in well-meaning efforts to devise means to *get round* the rigidities of the economic system. The reflationist proposal, which it has been one of the purposes of this paper to analyse, is essentially an attempt of this kind. These efforts have proved disastrous in action; and it is coming to be seen that their intellectual foundations are not a little faulty. Until as much time and disinterested intelligence have been devoted to the direct exposure of the harmful consequences of the rigidities from which we suffer as have hitherto been devoted to attempts to evade them, we have no ground for the belief that reason and persuasion have reached the limit of their effectiveness.

LIONEL ROBBINS.

Recovery and Extravagance

LAST month we reviewed the progress made in this country during the twelve months succeeding the financial crisis of August, 1931. We reached certain definite conclusions, among them being the fact that we had re-established our financial stability and were in a good position to take advantage of a world recovery. Since we wrote, there have been certain signs of a stirring of the world's economic system. Prices of staple commodities have definitely risen in a large number of cases. There has been a minor boom on the New York Stock Exchange, reflected to some extent in the stock markets of London and Continental centres. A more cheerful and hopeful tone is noticeable not only in British industrial areas, but also throughout the world.

It is small wonder, therefore, that people are eagerly asking, is this upturn genuine? Is it the beginning of a real revival? The pessimist's answer is very simple. All he has to do is to point out that the recovery is solely a recovery of prices. Employment is no better, production is still reduced to a minimum, international trade remains at its recent low ebb, bank advances and acceptances, which are the lubricant of business enterprise, continue to shrink. And so far he is right. For neither here nor in the United States has trade, in the broadest sense of the word, really moved at all. On the other hand, it is permissible to rejoin that no one could have expected a trade as opposed to a price recovery to begin in the holiday season, and that events are following out the normal cycle of revival as defined in the economic text-books. The first stage was reached early this summer with a régime of cheap and plentiful money. Then came the next move, namely, the rise in gilt-edged stocks, and this was strengthened and accelerated in the country at least by the War Loan conversion operation. Lausanne, with its qualified promise of the solution of the world's chief problem, gave the signal for the next stage, namely, a return of confidence, leading to a buying movement in both the security and commodity markets, and this in turn was hastened by the thinly-disguised inflationary policies of the American authorities. The next stage in the text-book cycle is the business and production revival itself, and this, the optimist may argue, may be reached at any moment. The

fact that it has not yet been reached does not disprove the general text-book theory.

Now without taking either side in these rival attempts to read the omens, it is permissible to point out one simple fact. This is, that if recovery is to take place along normal lines, it postulates the removal of the factors that brought trade into its present plight. Unless this is done, it is true that inflation may bring about a temporary price boom, but as Professor Robbins points out upon a previous page, it will be of no lasting benefit, and in the end will do more harm than good. Now most of these adverse factors depend for their removal upon concerted international action, and in many cases silence is to-day likely to be far more productive of progress than ill-informed or partisan comment. There are, however, certain obstacles which we can and ought to deal with by ourselves, and the chief of these is the burden of public extravagance.

It is now almost exactly a year since Mr. Snowden introduced his second budget of 1931–32, and put our finances upon a stable basis. His success, as revealed by the completed revenue returns for that year, was so outstanding as to leave many people under the impression that the National Government had achieved that part of their task, and that the state of the public finances had ceased to be a problem or an obstacle in the way of trade revival. Nothing is further from the truth.

What the second budget of 1931–32, and the budget of 1932–33 really did was to substitute honest for dishonest finance, and to ensure that the full tale of current expenditure was brought within the budget. The economies that Mr. Snowden effected a year ago, drastic though they were, did no more than compensate for the inclusion in the budget of items of expenditure which ought to have been there before. The current estimates for 1932–33 still show a total annual expenditure by the Government alone of £733·5 millions, and to this must be added the huge expenditure of the local authorities of the Kingdom. If it is true that in our years of relative prosperity, several years ago, our national income was £4,000 millions, it is probably no more than £3,000 millions to-day. Thus we are now diverting over one-third of our national income into the hands of the tax-collector and the rate-collector.

These facts are not new, but it is of vital importance to recall their implication at a time when there is at least a chance

of trade revival. One condition of active and prosperous trade is that there should be a fair balance between saving and spending, or rather between spending for current needs and spending to provide for future requirements, or to replace past losses and obsolescences. This distinction is far from theoretical, for the industry of the nation is divided into the same two parts. One part, such as the textile industries, food and drink manufacture, and the so-called luxury trades, exists to supply current needs. The other part, which includes the vital industries of iron and steel, machinery, engineering and building—employing between them a substantial proportion of our labour force and productive equipment—exists to supply the nation's capital needs. Moreover, both parts have their own capital needs to fill, if they are to replace obsolescent plant and maintain their efficiency and competitive power.

Now whatever the merits of Government or local expenditure, it all goes to meet current needs, with the sole possible exception of the cost of public debt interest which may be "saved" by its recipients. Hence with our present national and local budgets, we start with a substantial proportion of our income taken from our control and diverted to expenditure upon current needs, regardless not only of our own wishes but also of the supreme importance of maintaining a proper balance between spending and saving. Of the remainder, another large proportion must be used by its earners to supply their own current needs, which in many cases have not been and cannot be reduced in proportion to the shrinkage in income during the past few years. Then and only then are individuals free to save and invest, and so begin to establish the correct balance between saving and spending.

It is impossible to escape the conclusion that to-day the balance is weighted far too heavily upon the side of spending and that this is due to the size of the budget. It may be that once more March 31st will show that the revenue has been successfully collected, though already there are signs that certain duties, notably stamps, may fail to fulfil the year's estimates. But even if success is attained, it will be a barren victory, and there is all too good reason to fear that the price paid will be the postponement of recovery.

We therefore urge the Government to realize that the next move along the road to revival rests with them, and that it is a move which must be made at once. Let them follow up the

saving effected through War Loan conversion with the preparation and announcement of savings on supply expenditure equal to at least £100,000,000 a year. Let them further state that these will take effect at once, and that the consequent tax remissions will be made in next April's budget.

Were they to do this, those who are accustomed to save would plan to do so at once, and those industries which are dependent upon saving and investment for their employment would begin at once to prepare for the new and more favourable conditions. More important still, all those industries which need new plant, to be paid for out of new capital, could begin their replacements at once without waiting for next April, for bankers and others with idle funds in hand would feel justified in making temporary advances, so soon as they saw that permanent capital would be forthcoming within a few months.

In short, an immediate announcement of Government economy would not only give the next impetus to recovery, but would ensure that it would be a balanced recovery spread over the whole industrial field. Unless the Government helps in this way, we will either miss a possible recovery altogether, or if it comes it will be of a partial and unhealthy character, based upon personal extravagance and limited to the industries catering for current needs and luxuries. In the end this would be even worse than no recovery at all to-day. We have a better chance than we have had since the crisis began. The Government has behind it a strong Parliament and the support of every thinking person in the country. It is for the Government to take that chance at once, before it disappears, and to do so on behalf of the nation. The failure of Mr. Chamberlain to take such action hitherto is the one glaring flaw in the Government's record. Why has it not implemented its promise of *drastic* economy?

Finance and Industry

(20) The Foreign Exchanges (3)

SO far we have discussed the foreign exchanges mainly from the theoretical aspect, and have dealt with the forces governing fluctuations in the foreign exchanges together with the gold standard with its various modifications and alternatives. It remains to describe briefly practical operations in the foreign exchanges.

Until fairly recently transactions in foreign exchanges consisted mainly of the purchase and sale of bills of exchange drawn in various currencies, and in London which has for long been the principal foreign exchange market of the world, this business was mainly conducted by the accepting houses and the London offices of foreign banks, while the British joint-stock banks did not engage in it directly. To-day, however, conditions are greatly changed, partly as a result of the war and partly owing to the development of international communication by cable and telephone. No longer do the representatives of the big London houses meet twice a week "on 'change" to deal in foreign bills. Instead, the foreign exchange market goes on every day by telephone between various offices concerned, and since the war the British banks have taken a leading part in the market.

To-day anyone who wants to buy or sell foreign currencies can simply go to his bank, and his bank will deal with him in the particular way that he requires. One customer may wish to buy or sell actual currency, and the bank will meet his needs. A second customer may have a payment to make abroad. If so, his bank will provide him with a draft or cheque drawn to his order upon some bank in the country in question; or if the payment is urgent, the bank will provide him with a cable or telegraphic transfer, that is, it will cable to the foreign bank an order to make the payment. A third customer may have received a draft drawn in a foreign currency. In this case, the bank may either buy the draft from him with recourse, or take it for collection. In the first alternative the bank acquires the draft and collects the proceeds itself with the proviso that if the draft is unpaid the customer reimburses the bank. In the second alternative the customer has to wait for his money till the proceeds of the draft are collected abroad and remitted

home. A fourth customer may wish to discount with the bank a foreign bill payable in two or three months' time.

While the rates of exchange at which these various operations are conducted depend upon the quoted rate of the moment they do not necessarily agree with it exactly. Thus, if a bank buys or sells foreign currency notes, it bases the rate it quotes to its customers only indirectly upon the quoted rate for drafts or telegraphic transfers. It also takes into account the stocks of foreign currency at disposal and the trouble in which it is involved. That is why there is always some margin between the quoted rate of the moment and the rate at which this business is done, and this margin is always against the customer. If he is buying franc notes he gets less francs for his pound than the quoted rate, while a seller has to give more francs for each pound he receives.

Similarly, the rate at which a three months' currency bill payable abroad is discounted must be slightly higher than the basic rate quoted for telegraphic transfers because, for one reason, interest for both the term of the bill and the time it takes to receive the proceeds must be taken into consideration. Thus, if a three months' bill drawn in francs is discounted with a British bank, the rate offered by the bank may be Frs.91 when the quoted rate is Frs.90. Conversely, if a three months' sterling bill be discounted in Paris, the French bank may only offer Frs.89. In the first case, the British bank only offers £1 for each Frs.91, and in the second case the French bank only offers Frs.89 for each pound, so that in each case the bank makes a small turn.

It is now time to regard these operations from the bank's point of view. It will be appreciated that every bank is continually acquiring or supplying foreign currencies in every shape or form, and that as a result it must carry a stock of each foreign currency sufficient to meet passing demands. Furthermore it must have a representative in each foreign centre to collect bills drawn on that centre and acquired by the bank, and conversely to make payments on the bank's behalf.

These needs are met very simply. An important London bank will have banks in every foreign centre, which act as its "agents" or "correspondents," and the bank will reciprocate by acting as the London agent of the foreign banks. If the London bank has American bills to collect, it will send them out to its New York agent, who collects them and places the

proceeds to the credit of the London bank's account with it. If it has payments to make in America on behalf of its customers, it will instruct its New York agent to make those payments out of the dollar balance held by the London bank with its New York agent. If the London bank acquires a surplus of American currency notes, it may send it by post to its New York agent for the credit of its account. And similarly with Paris and other centres. In normal times it frequently happens that a debt due, say, from a German cotton spinner to an American cotton grower is settled in London by a transfer from the agent of a German bank to the agent of an American bank, and in this case the ultimate settlement is the transfer of sterling from German to American ownership.

Now let it be assumed that a London bank finds that its payments on its customers' behalf to the United States are exceeding its receipts. In this case its balance with its New York agent begins to run low, and before long it will have to be replenished. The obvious way of replenishment is for the bank to find another bank whose New York balance is growing too large, for in that case the one bank can sell to the other some of its surplus dollars. This is exactly how the London foreign exchange market works. Each bank and accepting house has a dealer, whose duty it is to watch the size of the bank's balances in different foreign centres, to see which are growing too large and which are too small. He is in telephonic communication with the dealers of other banks, and also with various Foreign Exchange "brokers," who in return for a commission make it their business to keep in touch with dealers, and in fact to "make a market" in the currencies in which they specialize. Assume that a dealer wants to buy dollars. He may approach another dealer direct, but very often he will ring up a broker who specializes in dollars. This will save him time, for the broker is sure to know which dealers, if any, are offering dollars, and the broker will immediately quote rates to both dealers, until he finds a rate upon which they can agree. The deal then goes through, and is completed by each bank cabling its New York agent, the one to pay and the other to receive the dollars.

It is the rates at which these transactions take place between the banks themselves that are the basic foreign exchange rates which are quoted each day in the newspaper. The rates vary almost from minute to minute, for if dealers cannot agree

upon one rate, the broker will promptly suggest a different rate in order to induce agreement or possibly to tempt out a third dealer. If there are few or no sellers of dollars, the broker will drop the rate (that is increase the price of dollars), while to bring out buyers the broker will have to raise the rate.

It is now easy to link up theory and practice. Suppose that because of a heavy importation of American cotton, or a rush of money to New York for investment, or for any other of the reasons discussed in the first of these Foreign Exchange articles, there is a big demand for dollars. All the banks find that their customers are requesting them to make payments for them in dollars in one form or another, and they also have sterling bills of exchange presented to them by American banks (directly or through their London agents) for collection and payment. Hence all British banks find their dollar balances running low, while American banks find their sterling balances growing too large. The British banks' dealers begin to compete for dollars in the foreign exchange market at a time when few dealers are offering dollars. To bring out offerings of dollars, the brokers have to lower the rate again and again, until finally some holder is tempted by the higher price to sell dollars. It is in this way that the demand for dollars is in practice translated into a fall in the rate.

Finally, a brief explanation must be given of "forward" exchange. Hitherto in this article all dealings between the banks and their customers, and between the different banks, have been assumed to be for spot cash. Even in the case when the bank discounted a three months' bill, the customer's account was credited at once, and the only exception was the one where the bill was taken for collection, in which case there was a short delay while the bill was being sent out to its place of origin. It is, however, possible to buy or sell foreign exchange one month, two months, or three months "forward," and in this case both delivery and payment takes place at the end of the stipulated interval.

The importance and value of forward exchange dealings lies in the fact that they are carried out at rates which differ comparatively little from the day's spot rates. In fact a forward rate is usually quoted at so many cents, centimes or lire above or below the corresponding spot rate for New York, Paris or Milan. Anyone who wishes to insure against possible exchange fluctuations can readily do so by buying or selling

forward and it is a precaution that everyone who has dealings with foreign countries ought to take. For example :—

(1) An Englishman has a debt to an American customer falling due in three months' time, and the business that gave rise to the debt was based upon the current exchange rate. The Englishman should promptly buy his dollars three months' forward.

(2) An Englishman wishes to invest money temporarily in American securities, to be sold in three months. To guard against a loss on exchange, he should sell dollars three months' forward at the time he makes the investment.

(3) An English firm undertakes a contract in France, payment to be in francs on completion in three months' time. The firm should at once sell its francs three months' forward.

(4) A foreigner is nervous about the stability of his country's currency and has great faith in sterling. As an insurance against a possible collapse, he buys sterling forward.

The margin between the spot and forward rate depends entirely upon the supply of and demand for forward exchange. If many people are buying forward dollars, they will become relatively expensive, so that the forward rate will fall below the spot rate. Forward dollars are then said to be at a premium. In early August forward dollars were at a slight discount, conceivably because purchases in respect of impending shipments of grain and cotton (cf. example (1)) were just off-set by sales made by European investors in American securities (cf. example (2)). When there is a big discount upon forward exchange, it is often a sign that the fourth cause is operating and that confidence is lacking in that country's stability.

This description of both spot and forward transactions is necessarily very brief. If any reader has any foreign exchange business in view, he should at once consult his banker, who will advise him fully with regard to each particular transaction.

Notes of the Month

The Money Market.—As had been expected, the slight hardening of money and discount rates at the end of August was very transitory, for by the middle of September rates were as low as ever, and the average Treasury bill tender rate for September 23rd was only 7s. 11·16d. per cent., or a new low record. Market discount rates have equally sagged, until by September 27th "hot" Treasury bills were being bought at ⅜ per cent., shorter Treasuries at ⅜ per cent., and three months' Bank bills at ⅝ per cent., or even less. The rate on standstill bills, however, has hardened slightly from ⅞ to 1 per cent. for the best bills, as they have been coming forward for discount a little more freely. Apart from the usual minor fluctuations in the supply of credit, such as arise from the uneven influx of revenue and discrepancies between Treasury bill payments and maturities, the present low rates seem likely to persist for a considerable period, and indeed it is known that the Government favour a long period of very cheap money, so that if conditions favourable to trade revival develop, the commercial world can rest assured that recovery will not be checked for lack of credit. The desire to give this assurance in advance explains the apparent paradox of keeping money so cheap and plentiful at a time when there is very little commercial demand for it.

The Foreign Exchanges.—Sterling has remained steady during the past few weeks at rates varying from about \$3.45 to \$3.50. While any suggestions of the forthcoming stabilization of sterling at \$3.50 are entirely without foundation—for the simple reason that the fundamental conditions necessary for stabilization have yet to be established—there is no doubt that once or twice during September official intervention took place in order to prevent sterling moving beyond these limits. Such intervention is most desirable, for the knowledge that it can occur without warning at any moment is a most salutary check upon speculation in sterling, leading to wide and harmful fluctuations in the rates. Apart from purchases and sales of dollars reflecting the movements of funds between Europe and the New York stock market, the main influence upon the New York exchange has been seasonal purchases of dollars to finance crop movements, and these, of course, tend to depress sterling. French francs were inclined to strengthen on the announcement

of the French Conversion scheme, and it is possible that some foreign buying of Rentes took place with the object of taking advantage of the Conversion offer. The non-gold exchanges have been very steady, and Danish krone in particular have stood up well to the relaxation of the exchange restrictions at the beginning of September. It is believed that the Danish National Bank has had to make very little use of its new foreign credits. Japanese yen have been steadier at about 1s. 4d. after their previous fall. As regards Empire exchanges, the banks' selling rates for TT on London—that is, the rates at which they sell to their customers—have remained at £125 10s. Australian, and £110 New Zealand, per £100 sterling in each case. The banks' buying rate for TT Australian on London has stayed at £125, but the corresponding New Zealand rate is not quoted. Rates for sight drafts and long bills are in proportion. South African rates have moved in sympathy with other gold exchanges, and on September 22nd the banks' buying rate for TT London on South African was £73⅜ South African, and their selling rate £72⅝ South African, again per £100 sterling.

The Stock Exchange.—The rapid rise in many prices, both in London and New York, which began at the end of June, received a sudden check early in September. The decline which followed was a very healthy movement which got rid of a fair amount of unsound speculation, and markets have lately displayed renewed strength upon a much better basis. British Government securities which reacted in August after the stimulus given by Conversion have since improved, until by September 26th Assented War Loan had risen to a full point over par, compared with 98⅛ on August 26th. Foreign bonds have remained an uncertain market, and the recent memorial by the London League Loans Committee to the League of Nations regarding League Loans in default accentuates the uncertainties attending some of these bonds. Home rails weakened in sympathy with the general decline in early September, and traffic returns have remained disappointing. South American rails also displayed weakness on disappointing dividend statements issued towards the end of the month. Industrials, rubber and base-metal shares conformed to the general rise and fall of prices, and several wide movements were recorded, particularly in the rubber market. Oil shares improved substantially on the announcement of the increase of 3d. per gallon in the price of petrol.

Overseas Trade.—Taken by themselves, the August trade returns reveal no improvement in business, apart from a somewhat surprising increase in raw cotton imports. The total figures for the month were imports, £53·3 millions, against £51·9 millions in July; British exports, £28·6 millions, against £29·3 millions in July; and re-exports, £3·5 millions, against £3·3 millions in July. The returns for the first eight months of the year are summarized below:—

Description	Jan.–Aug., 1931	Jan.–Aug., 1932	Increase (+) or Decrease (−)
	£ mn.	£ mn.	£ mn.
Total Imports	553·1	465·9	−87·2
Retained Imports	508·6	429·8	−78·8
Raw Material Imports	116·4	112·0	− 4·4
Manufactured Goods, Imports... ...	165·2	106·2	−59·0
Total Exports, British Goods	262·5	244·9	−17·6
Coal Exports	22·7	21·3	− 1·4
Iron and Steel Exports	20·6	18·9	− 1·7
Cotton Exports	38·6	43·6	+ 5·0
British Manufactured Goods, Exports ...	198·8	187·1	−11·7
Re-Exports	44·5	36·1	− 8·4
Total Exports	307·0	281·0	−26·0
Visible Trade Balance	−246·1	−184·9	+61·2

The main point to notice is that while a substantial reduction of £78·8 millions has been effected in retained imports between this year and last, British exports have only fallen by £17·6 millions. The result is an improvement for the year to date of £61·2 millions in the adverse trade balance, and this has gone a long way to stop one of the principal leakages of last year. Exports of the staple industries of coal, iron and steel have also very nearly held their own, while there has been a noteworthy improvement in our exports of cotton yarn and cloth. On the whole these returns confirm the impression that while our trade position is still far from satisfactory, during the course of this year the deterioration has been partially checked.

Home Reports

The Industrial Situation

While the general tone is undoubtedly better than it was at midsummer, there has as yet been very little real improvement in business. It must be remembered that much of the information now available still relates to the holiday season, and that it will be possible to arrive at a truer conception of the actual trend of trade in a month's time. The recent set-back in commodity and security prices need cause no anxiety, and indeed it put an end to an unhealthy and unstable situation. The real trouble is that there still remain many obstacles, both internal and international, in the way of the restoration of normal trading conditions, and until there is at least a prospect of their early removal, it is difficult to envisage more than a moderate and uncertain recovery.

Agriculture

England and Wales.—Good progress was made with the corn harvest during August, and main crop potatoes are generally satisfactory in most districts with little disease. Root crops made satisfactory progress, but yields of turnips, swedes and mangolds will probably be below average, though average yields of sugar beet are expected. The favourable weather greatly improved hops and a yield of good quality is anticipated. The hay harvest was mainly completed under good conditions and grass is plentiful in most districts. Cattle and sheep have maintained their condition and milk yields have shown the usual seasonal decline.

Scotland.—Harvesting has been practically completed under favourable conditions and results are up to expectations, the wheat crop being particularly good. Potato crop estimates show a yield slightly above average in the West and South and slightly below in the East. Offerings of grain in the produce markets have met with a good demand, but potatoes are still almost unsaleable. Trade in the live-stock markets improved towards the end of September, and at several centres prices have been higher.

Coal

Hull.—Demand is limited, and despite curtailed working most descriptions are offering freely, the only exception being best steams.

Newcastle-on-Tyne.—The market is slightly better. There is more demand for Northumberland coal, but Durham collieries are finding it difficult to keep full time.

Sheffield.—Demand is slow for industrial fuels, shipment business is quiet, but there is more enquiry for forward account. Higher prices and warm weather have restricted demand for domestic fuels.

Cardiff.—Practically all classes of large coal are obtainable at minimum figures, and most collieries are working short time. There is a slight improvement in the enquiry for bunker qualities, due to the sailing of several steamers which are being recommissioned to proceed to Canada and South America. Enquiry for coke, briquettes and anthracites keep firm and demand for washed smalls is better.

Newport.—Large coal is in little demand and smalls are consequently somewhat difficult to obtain.

Swansea.—Shipments for August show the usual seasonal decline as compared with July, but exports for the first eight months of this year show an increase of 315,600 tons, chiefly as a result of the improved trade with Canada. The best qualities of anthracite maintain their firm tone.

East of Scotland.—In both Fife and the Lothians trebles and doubles continue in demand, but navigation coal is not moving off well. Steams could do with more shipping business, but a slight improvement is noted in singles and pearls.

Glasgow.—The coming of the winter has caused some improvement in home demand, but the expansion is not very marked and supplies of large coal for export are still in excess of foreign requirements. The feature in the export market is the strength of washed nuts.

Iron and Steel

Birmingham.—No advances are recorded in the home market, as the recent increases in Continental steel prices have so far been insufficient to stimulate home demand.

Sheffield.—The manufacture of stainless and corrosion-resisting steels continues to expand, and conditions in open-hearth steel production are no worse. There is a decided improvement in confidence.

Teeside.—There is a small improvement in pig-iron consumption. Buying has been of an encouraging character, and there is a growing disposition to consider forward purchases. Two more blast furnaces have been rekindled, but there are still only 17 in operation out of a total of 88 on the North-east Coast. The steel trade is quiet.

Newport.—Works report little activity, and home demand has not responded to the restriction of imports.

Swansea.—Tinplate exports for the first eight months of this year show an increase of 68,000 tons. The market is still quiet but enquiries are broadening and the outlook is better.

Glasgow.—Conditions are practically unchanged. Export enquiries are admittedly fairly numerous, but overseas trade has not shown its usual autumnal expansion and home trade is also very restricted. Makers feel, however, that the worst of the depression is over and that trade will improve before long.

Engineering

Birmingham.—Enquiries in the electrical trade are better and there is a general feeling that November will see a decided improvement. Much reconditioning is being carried out in anticipation of this. In the motor trade there is a scarcity of fresh business and stocks are accumulating. It is feared that the advance in petrol prices will curtail trade.

Coventry.—Motor car manufacturers are actively engaged on the production of new models, and, in view of orders received, a hopeful feeling prevails. The motor cycle trade is seasonally quiet and machine tools very inactive.

Luton.—Motor car makers are doing well, both for home and export, and demand for commercial vehicles has improved. General engineering has slightly better tendencies.

Sheffield.—Practically every branch of the tool trade shows a slight, but welcome, improvement. Substantial orders have been received from the Dominions.

Glasgow.—Marine engineers are still suffering from the depression in shipbuilding industry. Electrical and locomotive engineers are far from well employed.

Metal and Hardware Trades

Birmingham.—No expansion in actual business can be recorded over the past few weeks in either metal smallwares

or the rolled brass section, and raw material prices appear to be easing again. A firmer undertone is, however, denoted by the number of enquiries now being received.

Sheffield.—In both cutlery and plate business is irregular. Apart from the production of safety razor blades, which continues to make good progress, trade is poor for the time of year.

Cotton

Speculative interest has made for an unusually active market during the period under review, and values of all deliveries touched momentarily the high level of sevenpence, a figure felt to be unjustified by the general situation in the trade. The September Bureau estimate acted as a corrective to bullish sentiment, however, and the prediction of a crop yield, at 11,310,000 bales, or some 4,000 bales in excess of last month's figures, took the market by surprise and brought about a fall of around three farthings per pound—this despite continued reports of adverse weather in the Belt. A further decline evidenced itself on the resumption of liquidation in Wall Street, and uncertainty regarding the trend of political affairs in Europe has also contributed towards the undermining of confidence. Little business has been done in the raw material, and until mill activity in Lancashire is resumed this section of the trade must continue to stagnate. Textile reports from the U.S., however, show a marked improvement, consumption for the month of August being estimated at 403,000 bales against 279,000 for July. The present price of around 6d. per pound is deemed to represent a more reasonable valuation of the commodity than that at which it was assessed in early September, but it remains to be seen whether the market can absorb, in the absence of trade support, the seasonal increase in hedging operations. The Farm Board's decision to retain its holdings until next year has had a steadying influence.

Wool

Bradford.—A fair amount of business is passing, but much more would be forthcoming if top makers would accept lower prices. Owing to the rise of values in Australia and South Africa, however, they are adopting a firm attitude.

Huddersfield.—The fine worsted trade, being chiefly for export, remains quiet, but other sections report that orders are being placed a little more freely.

Hawick.—The Border tweed trade continues depressed, with most of the factories on short time. Repeat orders for the coming winter are nearly exhausted and there is still an abnormal lack of orders for next Spring.

Shipping

Hull.—Although demand for tonnage is small, rates are inclined to strengthen a little, particularly for small tonnage.

Liverpool.—Activity in grain chartering from Montreal has been the chief feature of the freight market in recent weeks, and rates have firmed both there and from the River Plate. The demand for outward coal tonnage has shown some improvement, but the basis remains unchanged. Rates generally continue unaltered and at low levels.

Newcastle-upon-Tyne.—Chartering has been fairly brisk in all directions, and rates generally have advanced.

Cardiff.—There is little or no change for the shorter trades, but the undertone for the Mediterranean is slightly better. Several local steamers have recently been commissioned to proceed in ballast to Canada, the River Plate and the Pacific.

Newport.—The coal trade has absorbed rather more tonnage in certain directions, but rates are unchanged. The number of laid-up ships has decreased slightly.

East of Scotland.—The number of vessels on loading turn at the Forth coaling ports at the end of September was normal. Other branches of shipping have continued quiet.

Glasgow.—Chartering of coal tonnage is still restricted and is confined mainly to Baltic ports. The market is steady.

Other Textiles

Belfast.—The reports of the new Irish flax crop are disappointing in some districts, but in others it is anticipated that the fibre will be much better than last season. Yarns are selling freely with firm prices, and in some cases advances are being paid to secure full requirements. Merchants report considerably more business in piece cambric and sheers, so much so that some factories are filled with orders till the end of the year. In dress linens there has been some forward business placed recently for overseas markets at keen prices, and enquiries for further quantities continue to come forward.

Dunfermline.—The Fifeshire linen trade has continued firm with a fair amount of new business coming in, but manufacturers have difficulty in obtaining profitable rates owing to the recent rise in the raw material. Spinners are quieter, most manufacturers having large stocks on hand, while the higher prices asked for yarns tend to restrict purchases. Supplies of both flax and tow are very scarce.

Leather and Boots

Northampton.—Leather prices are hardening, and manufacturers are apparently buying in anticipation of still further increases in price. Business in the boot and shoe trade is quiet for the time of year, but some manufacturers report a slight improvement.

Foodstuffs

Liverpool.—Trading in wheat has shown some increase since our last report, and fair purchases of Canadian wheat have been negotiated. A good demand, also, for Australian wheat has been experienced. Arrivals have been small and well below those recorded in previous seasons, although active chartering points to a coming increase in Canadian shipments. Quotations for "futures," following the U.S. Farm Board's pronouncement of the retention (until January next) of its holdings, and the firmness of cotton and other commodities, advanced spectacularly, and in the early days of September reached the high figure of 5s. 11d. per cental. In sympathy with other markets, however, values have since receded and remain at around 5s. 6d., a figure believed to be more in accord with the actual situation. World visible supplies, estimated at 408 million bushels, show a large excess surplus which must continue to influence the future trend of prices, although such figure is less by some 54 million bushels than that recorded at the same period last year. The outcome of the Ottawa Conference was received with some satisfaction, and it is not thought that the preference of 2s. per quarter will cause any serious dislocation of trade. A fairly active business has been done in maize, and values, which earlier showed a tendency to decline under liberal offers from the Argentine, have subsequently recovered to the 4s. 5d. level. Continental bacon has been in fair supply at higher prices, but American bacon and hams are scarce and

firmer. Trade in lard was of good dimensions but at erratic prices. Butter showed a healthy demand throughout the period under review, with prices advancing in sympathy with other commodities. Continental buying for Danish proved good and prospects favour a continuance of a better market for the next month or two. A smart advance in the prices of Canadian and New Zealand cheeses took place during the period. Home makes are now in diminishing supply and higher rates are expected later. In the canned goods section, the trade in meats improved at unchanged prices, and the lower rates for fruits resulted in a much better demand.

Fishing

Brixham.—Landings for August were well up to average for all classes, and demand was brisk and prices held good.

Penzance.—Large catches of pilchards have been taken, most of them at 15s. per 1,000. Line fishing was well about the average, boats making from £100 down per week. Some very fine turbot have been landed, prices ranging from 7d. to 11d. per lb. Small mackerel are also plentiful.

Scotland.—The Scottish fishing fleet is now proceeding to English waters, but results so far have been poor. Line fishing at Aberdeen and other East Coast ports has mostly been rather light, and catches have commanded good prices.

Other Industries

Paper-making and Printing.—Edinburgh reports no change in the paper-making industry, both home and foreign demand being easily satisfied. The printing trade is also dull, but the commercial side is improving a little.

Pottery.—Trade shows no real improvement, but Christmas orders are coming in and causing a temporary revival.

Timber.—Hull reports that trade in August was quiet, partly owing to the holidays. There is, however, still a fair demand for building timber and floorings. Prices remain low, but there are signs of an advance in foreign floorings. Joinery timbers are not plentiful, and there is a possibility of a shortage during the winter. Russian goods are well placed and the success of the Timber Distributors Ltd. seems assured. Swedish and Finnish prices are firm.

Overseas Reports

Australia

From the National Bank of Australasia Limited

Business has improved since June and is now clearly ahead of last year. Rural prospects are excellent in all States except Queensland. Rising prices and expectations of coming heavy exports of staple commodities are tending to restore normal trading conditions. July imports were 50 per cent. above those for last year, while the favourable trade balance, including gold exports, was £39,000,000 sterling for the past twelve months. Exports of frozen lamb, however, have lately been checked by the fall in London prices. The Commonwealth budget provides for substantial economies and includes certain tax concessions, designed to help producing interests.

Canada

From the Imperial Bank of Canada

Sentiment has improved and confidence is being restored, but apart from some recovery in the automobile industry business activity remains quiet and unchanged. Building operations are greatly curtailed. Shipowners have had a better season owing to heavier grain movements and larger importations of British coal. The western wheat crop promises to exceed last year's by 100,000,000 bushels, and with low production costs and an improving market there should be a margin of profit which will help to liquidate current debts and stimulate purchasing power.

India

Bombay raw cotton prices advanced during August, owing to bullish American reports and heavy buying by Indian and Japanese consumers. Crop prospects improved. Business in Manchester goods is still hampered by political uncertainties, and dealers and consumers have yet to regain confidence, but prices have been firm and if they remain so, the volume of enquiry should broaden. Import duties upon foreign as opposed to British cotton goods were raised to 50 per cent. at the end of the month, but so far the increase has had little effect upon either British or Japanese trade. Business in Japanese and Indian goods remained very steady during

August. The increase in the import duties should be of considerable benefit to the home industry. Calcutta reports a rapid advance in jute prices during August, with good prices towards the close of the month. In the tea market common teas met with a strong demand, and leaf teas and dusts sold well, but Assam and Darjeeling teas declined in quality as the month progressed. Rangoon reports an improvement in rice prices and fair purchases by European shippers. The timber and hardware trades remain very quiet.

Irish Free State

Weather conditions have been very favourable, and pastures and after-grass are both satisfactory. The hay crop was average, and winter and spring wheat ripened evenly and were expected to yield an average harvest. The potato crop was well above average. Limited supplies of cattle were on offer at the provincial markets, and demand was restricted to the home trade. Exports to England of cattle, butter, eggs and bacon were reduced by the new duties to only £457,300 for August last, or to one quarter of the corresponding exports for August, 1931. Irish feeling, however, favours an early settlement of the dispute with Great Britain over the land annuities.

France

From Lloyds & National Provincial Foreign Bank Limited

Imports for July totalled Frs.2,388 millions, against Frs.3,634 millions in July, 1931. Exports came to Frs.1,428 millions, against Frs.2,420 millions. The adverse visible trade balance was thus Frs.960 millions, against Frs.1,214 millions. For the first seven months of the year it is Frs.6,155 millions, compared with Frs.8,192 millions for the same period in 1931. The index of industrial production for July was 92, against 123 for July, 1931, and 100 for 1913. It is 48 points below the record level of 140 touched in 1930. The number in receipt of unemployment relief fell from 303,000 in March to 232,000 in June, and then rose to 263,000 at the end of August. Since then there has been some improvement. Prices on the Bourse advanced during August in all sections of the market, but in certain respects the improvement has gone too far, and some reaction seems likely. French Rentes were strong during

early September in anticipation of the conversion scheme, since announced. This provides for the conversion of a substantial part of the National Debt from a basis of 5 to 7 per cent. to one of 4½ per cent.

Bordeaux.—The late maturity of the vines has postponed the vintage to the middle of October, and business is dull pending its result. Yield is likely to be small, and quality as yet unknown. The rosin market was firm until the mid-September break in commodity prices, which imparted a slight weakness to the Bordeaux market.

Lille.—The past month has witnessed a slight but general improvement in the textile industries, mainly due to the rise in raw material prices during August and early September. Cotton spinners have lately been able to sell their entire output, and both spinners and weavers have received more orders than at any time in the preceding six months. Flax is quiet but firm, and activity in the linen industry is less than might have been expected. Both jute and flax spinners are awaiting more definite news as to coming crops before extending their purchases.

Roubaix.—The woollen industry has definitely improved. There has been a big turnover in tops at higher prices, and combers are now working at 50 per cent. of capacity, which is far better than was expected a month ago. Spinners, too, are receiving more orders, but the recovery has not yet reached the weaving end of the industry, and it is still too early to say that the corner has been definitely turned. Unemployment, however, is less serious and stocks of tops were reduced during August from 14·7 to 13·9 million kilogrammes.

Marseilles.—The price of ground-nuts declined early in September as the result of offers of the new crop for future shipment at considerably cheaper rates. This decline, however, encouraged crushers to replenish their stocks, and the market has since improved. Copra prices remain steady, but those of olive oil have declined owing to an almost complete absence of business.

Belgium

Brussels.—The steel market has improved in tone, and more orders have come to hand. As a result of the coal strike, which

has been followed by a reduction of output, stocks of coal have been reduced by about 1,200,000 tons. House coal prices were raised by Frs.15 to Frs.20 per ton on September 1st. In the glass industry, more foreign orders for plate-glass have been received and the outlook has improved. Makers of bottle-glass are working at 60 per cent. of capacity.

Antwerp.—Trade has lately revived somewhat, and most commodity prices are firmer. This is particularly true of Santos coffee, owing to the closing of Brazilian ports, but wool, jute and rubber were also very firm. Manufacturers and retail traders are beginning to replenish their stocks. Some improvement is at last noticeable in the diamond industry, and there has been a definite recovery on the Bourse.

Germany

The new Government economic programme, providing for indirect assistance to industry through the issue of negotiable tax certificates and other means, including freedom to reduce wages, has been well received and sentiment has improved. Business underwent the normal holiday recession during August, but has since shown signs of recovery. Car-loadings and coal production improved in early September, and more orders were received by the engineering trades. Iron and steel output has fallen away owing to the completion of large Russian orders. Unemployment was reduced during August from 5,392,000 to 5,225,000.

Holland

Efforts are being made to adjust wages and other costs to current conditions, but this is proving not at all easy. Attempts to reduce seamen's wages lately led to a shipping strike, and this was only settled by a compromise providing for the maintenance of existing conditions until March 31st, 1933, for the liner trade, and October 15th next for tramp steamers. Negotiations for a wage reduction are also proceeding in the building industry. Money remains very easy, and the Stock Exchange has shared in the general world improvement, while numerous fresh public loans have been readily absorbed. Business, however, is no better, and August witnessed a further slight increase in unemployment.

Norway

August imports rose to Kr.57·8 millions, against Kr.49·3 millions in July. Exports also improved from Kr.41·4 to Kr.56·3 millions, but the increase is in part attributable to re-sales of ships, including the transfer of one of the largest floating whale-oil factories to the British flag. Exchange rates have been steady, and the Bank of Norway reduced its discount rate from 4½ to 4 per cent. on September 1st. A temporary selling agreement has been reached between all Norwegian and foreign whaling interests operating in the Antarctic, with the exception of two companies. This prohibits individual sales of oil pending the adoption of a final agreement, and sales have recently been made by the selling pool at £13 per ton, against sales of £10 per ton recorded a short time before. Norwegian industries remain depressed, and the quantity of idle tonnage increased from 1,265,000 to 1,336,000 tons during August. Unemployment also increased from 25,750 to 27,033. New laws relating to bills of exchange are to come into force on November 1st, simultaneously with corresponding legislation in Sweden, Denmark and Finland.

Sweden

Money is abundant, and on August 31st the Riksbank reduced its discount rate from 4 to 3½ per cent. Advance and deposit rates remain unaltered. The initial harvest reports are exceptionally good. The country's wheat requirements are fully covered, and the hay crop is also abundant and of splendid quality. These results will have an important bearing upon Sweden's grain imports. Timber sales became brisker during early September, except in the white wood market, which is depressed by Russian offerings. Sales to the middle of September amount to 500,000 standards, or 50,000 standards more than those for the same period last year.

Denmark

With the exception of the prohibition upon speculative operations, all restrictions upon foreign exchange dealings were removed at the beginning of September, but simultaneously the Exchange Centralization Office announced drastic reduction in the import quotas of goods whose importation is subject to

licence, and these have aroused keen protests from traders. Feeding-stuffs, grain, crude iron and fertilizers, however, may now be imported without licences. The removal of the exchange restrictions only caused a depreciation of one krone in the sterling exchange, and it is believed that the balance of payments has remained so favourable as to free the National Bank from the necessity of drawing upon the foreign credits which it had arranged as a precautionary measure. Prices of bacon, butter and eggs again improved during August, and are now once more on a profitable basis. Unemployment rose during August from 114,724 to 121,251.

Switzerland

From Lloyds & National Provincial Foreign Bank Limited

Exports have registered a slight improvement from Frs.58·6 millions in July to Frs.59·7 millions in August. This mainly arises from higher exports of textiles and dye-stuffs. Exports of machinery, silk ribbon, schappe and pharmaceutical products declined. Imports have also increased from Frs.132·3 millions to Frs.134·4 millions. Money remains easy, and Swiss gilt-edged securities firm. The Bourse shared in the general improvement on the stock markets during early September.

Spain

Trade returns for the first half of 1932 show a decrease of 200 million gold pesetas in imports and 138 million gold pesetas in exports, as compared with the same period in 1931. The unfavourable balance of foreign trade is only 73 million gold pesetas as against 136 million gold pesetas last year. Pending the findings of the National Transport Conference the Government proposes to appoint representatives to the Boards of the Railway Companies. The State is interested in the railways to the extent of about 1,300 million pesetas, and a policy of active intervention is indicated by a Bill now under discussion. The Government also propose to raise a loan of 400 million pesetas for the purpose of school construction. The issue will be made by instalments, the amount for the current year being fixed at 20 million pesetas. The passing of the Statute of Cataluna and the Land Reform Bill mark an important step towards the pacification of the country.

Morocco

From the Bank of British West Africa Limited

Export business was quiet during August, this being particularly true of the grain trade. Shippers of wheat to France now have to declare their stocks in accordance with the new quota regulations. Prices of soft wheat have declined considerably. The import trade has been more active, and prices of Manchester goods have hardened as a result of the Lancashire strike. Contractors are awaiting details regarding the new expenditure shortly to be made by the Protectorate Authorities. The execution of their programme should afford scope for British manufacturers, if they keep touch with developments through their Moroccan representatives.

United States

Notwithstanding the numerous big increases in commodity and security prices which persisted up to the middle of September, there has only been a very moderate improvement in business. Steel-ingot production has improved to 15 per cent. of capacity, against an August average of 14·26 per cent. and a low point of 12 per cent. at the end of June. Freight-car loadings also improved slightly in early September, but the increase was purely seasonal. Electricity production also rose on September 3rd to only 10 per cent. below its level of twelve months before, this comparing with an annual decline of about 13 per cent. registered during the summer. The textile industries showed some slight improvement during August, but the automobile industry remained depressed. It is apparent that very little genuine improvement has so far taken place, and the break on Wall Street and in the commodity markets, which followed the Democratic victory in Maine, shows how unstable is the situation.

Japan

Exports improved from Y.110 millions for July to Y.136 millions for August, and imports from Y.68 to Y.73 millions. The further depreciation of the yen stimulated an outburst of activity on the raw silk market, so much so that dealings had to be suspended for three days at the end of August. Industrial conditions are a little better, and the cotton, rayon and cement industries have decided to relax slightly their previous curtailments of production.

Banking

1. BANK OF ENGLAND

Date.			Issue Department.		Banking Department.				
			Gold.	Notes in circulation.	Reserve and Proportion.		Bankers' Deposits.	Govt. Securities.	Discounts &Advances.
1931.			£ mn.	£ mn.	£ mn.	Per cent.	£ mn.	£ mn.	£ mn.
Sept.	23	...	*133·6*	*352·7*	*57·3*	*41·2*	*64·9*	*60·2*	*13·6*
1932.									
Aug.	31	...	138·9	365·3	49·5	36·4	79·5	73·1	12·2
Sept.	7	...	139·0	365·1	49·8	37·6	91·5	69·9	12·3
Sept.	14	...	139·3	362·3	53·0	38·9	89·8	70·9	12·1
Sept.	21	...	139·4	359·3	56·1	40·2	82·6	71·0	12·0

2. TEN CLEARING BANKS

Date.			Deposits.	Acceptances.	Cash.*	Call Money.	Bills.	Investments.	Advances.
1931.			£ mn.	£ mn.	£ mn.	£ mn.	£ mn.	£ mn.	£ mn.
August	...	...	*1,745·0*	*112·6*	*222·5*	*113·2*	*263·6*	*301·7*	*908·5*
1932.									
March	...	...	1,676·4	98·7	217·4	112·5	216·8	281·9	902·1
April	...	...	1,680·5	98·1	214·2	112·4	240·1	287·5	881·0
May ...	...	...	1,699·0	99·5	222·0	113·1	246·5	300·2	871·4
June ...	...	...	1,764·4	93·2	239·2	113·4	277·7	339·7	852·2
July ...	...	...	1,803·9	84·5	233·3	123·0	317·4	348·8	836·2
August	...	...	1,850·6	78·7	233·5	117·5	374·4	368·5	816·2

* Includes balances with other banks and cheques in course of collection.

3. LLOYDS BANK, RATIO OF CURRENT ACCOUNT CREDIT BALANCES TO TOTAL DEPOSITS

Year.	Ratio.	Month.	Ratio.			
			1929.	1930.	1931.	1932.
			%	%	%	%
1902	58·2	January	46·8	45·1	45·9	46·5
1914	49·9	February	45·9	44·2	45·1	44·7
1919	60·7	March	45·2	44·5	45·3	44·7
1920	56·7	April	44·9	45·1	45·0	45·2
1921	50·7	May	44·1	44·0	44·8	45·3
1925	49·6	June	44·5	44·4	45·4	45·4
1926	48·6	July	45·4	44·7	45·7	46·0
1927	47·4	August	45·3	44·4	45·7	45·7
1928	46·4	September	45·3	44·7	45·0	
1929	45·2	October	45·6	44·8	45·3	
1930	44·7	November	44·7	44·8	45·3	
1931	45·4	December	45·3	46·0	46·7	

Money, Exchanges and Public Finance

1. LONDON AND NEW YORK MONEY RATES

Date.	London.			New York.		
	Bank Rate.	3 Months discount Rate.	Day-to-day Loans.	Re-discount Rate.	90 Days' eligible Bank acceptances.	Call Money.
1931.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.
Sept. 23 ...	*6*	*5½—⅝*	*4¾—5½*	*1½*	*1⅛*	*1½*
1932.						
Aug. 31 ...	2	11/16—¾	¾—1	2½	⅞	2
Sept. 7 ...	2	11/16—¾	½—1	2½	⅞	2
Sept. 14 ...	2	⅝—11/16	½—1	2½	⅞	2
Sept. 21 ...	2	⅝—11/16	½—1	2½	⅞	2

2. FOREIGN EXCHANGES

London on	Par.	1931.	1932.			
		Sept. 23.	Aug. 31.	Sept. 7.	Sept. 14.	Sept. 21.
New York ...	$4·866	4·10½	3·46¾	3·49⅛	3·48⅛	3·46⅛
Montreal ...	$4·866	4·56¼	3·87½	3·84	3·85½	3·86⅛
Paris	Fr. 124·21	104·00	88½	89¼	88 27/32	88 9/32
Berlin	Mk. 20·43	17·87	14·57½	14·70	14·62½	14 17/32
Amsterdam ...	Fl. 12·11	10·25	8·62	8·70½	8·67	8·61½
Brussels ...	Bel. 35	29·50	25·00	25·22½	25·12½	24⅞
Milan	Li. 92·46	80·00	67⅝	68⅛	67 13/16	67⅝
Berne	Fr. 25·22½	21·00	17·89½	18·10	18·04	17·94½
Stockholm ...	Kr. 18·16	16·50	19·47½	19·47½	19·50½	19·50
Madrid ...	Ptas. 25·22½	46·37½	43 1/16	43⅜	43¼	42 9/16
Vienna ...	Sch. 34·58½	32·00	29½*	29½*	29½*	29½*
Prague ...	Kr. 164·25	140·00	117½	118	117½	116¾
Buenos Aires...	47·62d.	32	40¾†	40⅝†	40⅝†	40⅝†
Rio de Janeiro	5·89d.	3⅛	5 3/16†	5 3/16†	5 3/16†	5 3/16†
Valparaiso ...	Pes. 40	35·00	57¼†	57¼†	57¼†	57¼†
Bombay ...	18d.	17 23/32	18¼	18½	18 5/32	18 5/32
Hong Kong ...	—d.	13¼	16⅝	16⅛	16¼	16
Shanghai ...	—d.	17⅛	21⅞	21¾	21⅜	21⅛

* Nominal. † Official rate.

3. PUBLIC REVENUE AND EXPENDITURE

Revenue.	To Sept. 17 1932.	To Sept. 19 1931.	Expenditure.	To Sept. 17 1932.	To Sept. 19 1931.
	£ mn.	£ mn.		£ mn.	£ mn.
Income Tax ...	45·0	51·0	Nat. Debt Service	135·9	146·8
Surtax	10·2	15·6	Northern Ireland Payments...	2·7	2·4
Estate Duties ...	36·5	32·7	Other Cons. Fund Services...	0·9	0·9
Stamps	6·1	6·1	Supply Services	200·2	192·4
Customs... ...	75·8	60·3	Ordinary Expenditure ...	339·7	342·5
Excise	56·6	55·9	Sinking Fund	12·4	18·7
Tax Revenue ...	231·6	223·0	Self-Balancing Expenditure...	30·9	32·1
Non-Tax Revenue	22·3	29·4			
Ordinary Revenue	253·9	252·4			
Self-Balancing Revenue	30·9	32·1			

1. PRODUCTION

Date.	Coal.*	Pig-Iron.	Steel.
1931.	Tons mn.	Tons thou.	Tons thou.
August	*3·8*	*276*	*357*
1932.			
March	4·5	336	463
April	4·1	317	433
May	4·0	315	417
June	4·0	311	459
July	3·6	293	430
August	3·5	259	362

* Average weekly figures for month.

2. IMPORTS

Date.	Food.	Raw Materials.	Manufactured Goods.	Total.
1931.	£ mn.	£ mn.	£ mn.	£ mn.
August	*31·8*	*12·5*	*20·1*	*65·3*
1932.				
March	30·9	16·5	13·0	61·1
April	27·5	13·4	11·8	53·5
May	29·9	13·7	11·6	53·7
June	31·4	13·5	11·8	57·5
July	29·3	10·8	11·4	51·9
August	28·2	11·7	13·1	53·3

3. EXPORTS

Date.	Food.	Raw Materials.	Manufactured Goods.	Total.
1931.	£ mn.	£ mn.	£ mn.	£ mn.
August	*2·6*	*3·4*	*22·0*	*29·1*
1932.				
March	2·7	3·5	24·2	31·2
April	2·9	4·0	26·8	34·8
May	2·6	3·6	23·2	30·2
June	2·3	3·6	22·9	29·7
July	2·3	3·5	22·4	29·3
August	2·6	3·4	21·7	28·6

4. UNEMPLOYMENT

Date.	1926.	1927.	1928.	1929.	1930.	1931.	1932.
End of—	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.	Per cent.
January	11·0	12·0	10·7	12·2	12·6	21·5	22·4
February ...	10·4	10·9	10·4	12·2	13·1	21·7	22·0
March	9·8	9·8	9·5	10·1	14·0	21·5	20·8
April	9·1	9·4	9·5	9·9	14·6	20·9	21·4
May	14·3	8·7	9·8	9·9	15·3	20·8	22·1
June	14·6	8·8	10·7	9·8	15·4	21·8	22·3
July	14·4	9·2	11·6	9·9	16·7	22·6	22·9
August	14·0	9·3	11·6	10·1	17·1	22·7	23·1
September ...	13·7	9·3	11·4	10·0	17·6	23·2	
October ...	13·6	9·5	11·8	10·4	18·7	21·9	
November ...	13·5	9·9	12·1	11·0	19·1	21·4	
December ...	11·9	9·8	11·2	11·1	20·2	20·9	

Percentage of Insured Workers.

Prices

1. WHOLESALE PRICES (average for month)

Date.	Index Number (Sept. 16th, 1931 = 100).				
	U.K.	U.S.A.	France.	Italy.	Germany.
1931.					
August	*101·6*	*100·4*	*105·0*	*100·6*	*101·3*
1932.					
March	106·8	91·5	96·4	97·0	91·7
April	103·5	90·2	96·7	95·5	90·4
May	101·2	88·4	95·5	93·5	89·3
June	97·7	88·3	92·6	90·6	88·4
July	98·7	87·6	91·4	89·0	88·1
August	102·0	89·6	88·8	89·2	87·7
August 5th week	105·0	90·5	89·0	90·2	87·5
September 1st week	106·7	91·7	89·0	91·5	87·9
September 2nd week ...	106·3	91·2	88·8	91·5	87·6
September 3rd week ...	105·5	90·5	—	91·2	87·1

Sources: U.K., "Financial Times"; U.S.A., Irving Fisher; France, Statistique Generale; Italy, Italian Chamber of Commerce; Germany, Statistische Reichsamt.

2. RETAIL PRICES (end of month)

Date.	Food.	Rent (including rates).	Clothing.	Fuel and Light.	Other items included.	All items included.
1931.						
August	*28*	*54*	*90–95*	*70–75*	75	*45*
1932.						
March	26	54	90	75	75	44
April	25	53–54	90	70–75	75	43
May	23	54	90	70–75	75	42
June	25	54	85–90	65–70	70–75	43
July	23	54	85–90	65–70	70–75	41
August	23	54	85–90	70	70	41

The figures represent the percentage increase above July, 1914, which is equal to 100.

3. COMMODITY PRICES (average for month)

Date.	Wheat, No. 1 N. Manitoba.		Cotton American Middling.	Wool, 64's tops avge.	Pig-Iron, Cleveland No. 3.		Tin, Standard Cash.	Rubber, Plantation Sheet.
1931.	per qr.		per lb.	per lb.	per ton.		per ton.	per lb.
	s.	d.	d.	d.	s.	d.	£	d.
August	*23*	*11*	*3·92*	*$22\frac{1}{4}$*	*58*	*6*	*$114\frac{15}{16}$*	*$2\frac{1}{2}$*
1932.								
March	34	8	5·38	22	58	6	$129\frac{15}{16}$	2
April	32	7	4·92	$21\frac{1}{2}$	58	6	$109\frac{1}{16}$	$1\frac{7}{8}$
May	31	10	4·83	21	58	6	$122\frac{3}{8}$	$1\frac{13}{16}$
June	28	1	4·30	$20\frac{1}{4}$	58	6	$114\frac{5}{8}$	$1\frac{3}{4}$
July	27	$10\frac{1}{2}$	4·69	$21\frac{3}{4}$	58	6	126	$1\frac{15}{16}$
August	29	10	5·73	$21\frac{3}{4}$	58	6	$142\frac{1}{8}$	$2\frac{5}{16}$